Govt. H-27—100,000—21-5-48.

1948

Khadi Development

(1948) Department.

MS **SERIES.**

G.O. No. 194 (184)

303.48

Dated 30th March 1948

[Despatch Abstract.]

Khadi - Development of - All India Spinners' Association - Request for a loan from Government - Papers regarding Recorded.

To A.S.

(Previous notes need not be read).

This file deals with the question whether the Government can grant any loan to the A.I.S.A. to implement its programme of Khadi production in this Province and if so, under what conditio Finance Department have pointed out that it is permissible to grant to the A.I.S.A. under the Madras State Aid to Industries Act, 1922 at the rate of interest of 5% per annum. This suggestion was examined and according to rule 13. framed under Section 19 (b) (7) of the Act, the interest to be charged on the loans advanced should not be less than 2% above the rate at which the Madras Government have last borrowed for Provincial loan account. It will therefore be seen that the minimum rate prescribed under statutory provisions will be the rate at which Provincial Government borrowed last plus ½%. This Department have suggested that in view of the fact that the A.I.S.A. intends only to further the development of khadi and is not guided by any profit motive, the rate of interest of 5% might be reduced to some extent, so that the terms offered might be attractive. Aothough the minimum rate mentioned in rule 13 is only 2% above the Government's borrowing rate, Finance Department state, the rates fixed during the previous years (since 1935-6) have been 1¼ and 2% above the Government's effect borrowing rate. A uniform rate of 5% per annum has been adopted all these years, though the Government's effective borrowing rate varied from 3 to 3¾% per annum, the difference being considered necessary to cover Government's service and risk of loss from the loans becoming irrecoverable in whole or in part. They have, however, stated that they are not aware of any instance where the Government had granted a loan to a cottage industry on a concessional rate of interest and therefore suggested that Development Department might be consulted in the matter. They (Finance) have also pointed out whether cottage industries, particularly, handspinning, should be charged a concessional rate of interest, is a matter of policy on which orders of the Government should be taken. With reference to Finance Department's suggestion, Development Department were consulted, who stated that the Director of Industries and Commerce should be consulted. The Director of Industries and Commerce has replied that so far as his Department is concerned, there is no instance where the Government have advanced a loan to a cottage industry at a rate of interest less than 5%. The Director of Industries and Commerce however suggested that the Board of Revenue might also be consulted in the matter, who in turn also has stated that it is not aware of such an instance.

In the circumstances stated above, it is for consideration whether the A.I.S.A. will be granted a loan at the rate of 5% in accordance with the present practice or whether it will be shown a concession, and if so at what rate and the maximum amount of loan that will be advanced on such rate. After orders are passed on these points, submitted that the Provincial Textile commissioner may be asked to obtain and furnish full information regarding the amount of loan required by the A.I.S.A. and their total value of assets ,the exact purpose for which the loan is proposed to be repaid, as suggested by Finance Department "A" on p. 2 ante.

The file may be circulated for orders of H.P.M. and H.M. Finance.

Sd. x x x
14-10-47.

In connection with the representation by the A.I.S.A. that they wanted the Government to lend them funds for the extension of their schemes, H.P.M. wanted to know whether the Government could give them any loan, if so, under what conditions.

Loan can be sanctioned to the A.I.S.A. under the Madras State Aid to Industries Act. The Board of Industries has been

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constituted under this Act and loans can be sanctioned by the Government only on the recommendation of the Board. The amount of loan should not exceed 50 per cent of the net value of the assets of the industrial business and of any other property offered as collateral security for the loan. The loan is repayable by instalments within such period as shall be prescribed which generally shall not exceed 20 years. The rate of interest charged on the loan in 1947-48 is 5% per annum.

The minimum rate of interest prescribed under the statutory provisi is one-half per cent above the rate at which the Government last borrowed. 23 P er cent per annum was the rate at which the Government borrowed last and as such the minimum rate cannot be anything less than 3¾ per cent per annum for loans sanctioned for the industrial concerns. But a uniform rate of 5 per cent per annum has been charged all these years i.e. 1¼ to 2 per cent above the Government's effective borrowing rate which were varying from 3 to 3¼ per cent per annum. The difference has apparently been considered necessary to cover Government's service charges and risk of loss from the loans becoming irrecoverable in whole or in part. The question whether Cottage Industries particularly hand-spinning should be charged a concessional rate of interest is a matter of policy for the decision of Government.

H.P.M. may see.

Sd. x x x
4-10-1947.

The Development of Cottage industries is still in the initial stage in the Province of I feel that they ~~pu~~ should be encouraged to improve on grant of loans even free of interest. At any rate concession rate of interest admissible as persues should in my opinion certainly be charged for loans granted to cottage industries especially such as hand-spinning in which the Government itself is taking keen interest.

Sd. x x x
10-9-47 -

The concession rate barging only Rs% over this Governments effective borrowing rate should be charged.

O.P.R.
4-11-47.

To R.F.D.O.

Please see the orders in circulation. Now that the rate of interest which the proposed loan to A.I.S.A. should carry has been decided the stage for obtaining the information specified at "A" on p. 2 ante is set, namely - the amount of loan required by the A.I.S.A. their total value of assets, the exact purpose for which the loan is required and the number of instalments in which the loan is proposed to be repaid. The information regarding the value of the assets of the A.I.S.A. in this Province according to Finance is required, to decide the maximum amount of loan that could be advanced with reference to section 9 of the State Aid to Industries Act, 1922 (Vide Finance Note at 'D' on pp.1-2-ante). It has already been pointed out in this Department's note at ' m' on page 3 ante that according to Sec.14-a) the provisions of section 9 restricting the grant of a loan to a limit of 50% of the assets will not apply to cottage industriessave as otherwise prescribed by rules made under the Act. Under Rule 24 framed under the Act, no loan to any industrial business or enterprise with a capital outlay not exceeding Rs.2,000/- and co ttage Industries, shoudd be granted and no guarantee of a cast credit, overdraft or fixed advance with a bank should be given, unles the value of the security offered is at least equal to the amount applied for. From this it will be seen that the Government can grant any amount of loan to a cottage industry, if the value of the security offered by it is equal to the amount of loan applied for. However, information regarding the assets of the A.I.S.A. in this Province seems to be necessary.

The Provincial Textile Commissioner may be asked to get the information referred to/including the particulars regarding the security to be offered and its value and also the rate of interest at which the A.I.S.A. is willing to take the loan. (Government, it is submitted, need not disclose their mind in this respect at this stage). The Provincial Textile Commissioner may be requested to get the information and suggest the procedure for the advance of the loan in consultation with the Director of Industries and Commerce. Subject to orders, a draft Office Memorandum is put up. Development and Finance may see.

above

Sd. x x x
3-12-47.

Development Department.

To A.S.

The notes of Firka Development on pages 12-17 above and the above draft memo below may be perused and the file passed on to Finance.

Sd. x x x
10-12-47.

Firka Development (ii) Department.

Development and Finance have accepted the draft memo. For orders whether it may now issue.

May issue.

Sd. x x x
13-12-47.

(Issued as G.Ms.No.157-F.D.II/47-19 dated 13-12-47.)
(From the Provincial Textile Commissioner, R.C.No.197939/47 K6 dated 27-1-48.)

To R.F.D.O.

The Provincial Textile Commissioner's letter on p. 13c.f. with reference to the Memo. on p. 11 c.f. with may be perused.

The Provincial Textile Commissioner reports that the three Branch Secretaries of A.I.S.A. have stated that they do not require any loan at present. In the circumstances, no further action seems called for in this file. May be circulated to the Hon'ble Prime Minister. (The papers may be recorded as G.O. for future reference). For orders.

Finance may also see before the pap are closed.

Sd. x x x
2-2-48.

To Rural Firka Development Officer.

Orders on /. 2 ante.

The papers may now be recorded.

G.O.Ms.No.184, Firka Development, dated 30-3-1948.

Khadi - Development of -A.I.S.A. - Request for a loan from Government - Papers regarding - Recorded.

Sd. x x x
27-3-1948.

/True Copy/

Office Assistant,
MADRAS RECORD OFFICE.

rds/